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KORN/FERRY INTERNATIONAL

1986 ANNUAL BOARD OF DIRECTORS STUDY

OF RETAIL COMPANIES

KORN/FERRY INTERNATIONAL

--Retail Division--

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Introduction

For the past 13 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify issues and track the evolution of the corporate board as an institution. As part of our annual study, we make a special study of the data pertaining to the boards of retail industry participants.

This year, of the 592 corporations that responded to our annual study, five percent were retailers. Industrial and service corporations accounted for 71 percent of the total, banks and other financial institutions, 15 percent and insurance companies, 10 percent.

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Whenever appropriate, comparisons are made between this group and all participants in our study.

1. **Size of Board (Table 2)**

   After showing a marked increase in board size last year, retail boards returned to an average of 13 members, slightly less than the 14 reported for all respondents. The largest retailers (companies with revenues of $2 billion or more) however, average 14 directors.

2. **Inside Directors vs. Outside Directors (Table 2)**

The retail boards are composed of four inside and nine outside directors, one outside director less than the boards of all respondents. Retailers decreased the number of board members from five inside and 11 outside directors reported in 1984.

3. **Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)**

Eighty-six percent of the retail respondents report that their chairman is also their chief executive officer, up from 75 percent who reported this relationship last year and more than any other responding group. Twenty-eight percent note that their chief executive officer is also their chief operating officer, a decrease from 48 percent in 1984.

4. **Board Composition (Table 4)**

Retailers rely on senior executives of other companies as the primary source for outside directors, 79 percent, up from the 76 percent reported in our Ninth Annual Study. Retired executives of other companies are another important source for outside directors; their representation rose to 69 percent, up from 55 percent in 1981 and 64 percent last year.

Sixty-two percent of the retailers have women on their

boards -- well above the 45 percent for all respondents and more than any other responding group, but a six percent decrease from last year's representation for retail boards (Table 4A). Retailers draw their outside women directors primarily from academia and the ranks of senior executives of other companies. (Table 4B). Minorities sit on 31 percent of retail boards, down from 40 percent last year, but greater than the 25 percent reported by all respondents. Minorities are primarily senior executives of other companies and attorneys who do not provide legal services for respondent companies.

Other groups that are highly visible on retail boards include academicians (on 52 percent), retired or previously employed corporate officers (41 percent), major shareholders who are not officers of the company (38 percent), and professional directors (38 percent).

For 1985, the following major trends in the composition of retail boards should be noted:

-Investment bankers continue to decrease from 33 percent in 1981 and 32 percent in 1984, to 17 percent in 1985.

-Attorneys who provide legal services to the company fell from 36 percent in 1980 and 1984 to 24 percent this year.

On the other hand, the following sources of outside directors experienced continuous increases in representation since 1981:

-Retired executives of other companies (from 55 percent to 69 percent).

-Professional directors (from 21 percent to 38 percent).

-Attorneys who do not provide legal services (from 21 percent to 31 percent).

-Former government officials (from 12 percent to 28 percent).

5. **Committees (Table 5)**

The committees most in use among the retail respondents continue to be the audit committee (reported by 100 percent of the respondents), compensation (reported by 86 percent), and executive (reported by 79 percent) (Table 5A). Sixty-six percent of the retailers have a nominating committee, up from 64 percent last year, and compared with 59 percent for all companies. The use of the corporate ethics committee has declined drastically. In 1985, only one retail company reported having this committee. With the compensation/benefits and executive committees, the nominating committee plays a significant role in the management succession process in retail organizations.

The executive and public affairs committees are the largest, averaging five directors each, although the public affairs committee decreased in size from last year's

reported six members. This year, the finance committee declined to four members, from six members in 1984. Overall, committee size decreased this year, compared with 1984 when most committees increased in size. The compensation committee gained one outside director, while the number of outside directors for finance, nominating and public affairs committees decreased by one member. The audit and compensation committees are composed entirely of outside directors.

In 1985, committees averaged between two and three meetings per year (Table 5C). The finance and benefits committees decreased their average number of meetings back to three meetings as reported in 1983. Meetings of the public affairs committee increased by one.

6. Compensation (Table 6)

Retailers continue to compensate their outside directors with an annual plus per-meeting fee (85 percent). Eleven percent pay an annual fee only (up from eight percent in 1984). Conversely, use of the per meeting fee only declined signiticantly, from four percent in 1984 to 0 this year.

-Annual Plus Per-Meeting Fee (84.6 percent of the respondents).

Outside directors of retail boards saw a four percent increase in total average annual compensation, from $21,400 last year to $22,141 this year. Current retail compensation stands at 13 percent more than the total compensation for all respondents ($19,544). The total comprises an average annual fee of $16,542 and an average per-meeting fee of $771. Since 1983, the percentage ot retailing directors who earn $25,000 or more increased from 12 to 36 percent. (In 1981, the average compensation for all retailers was only $16,380).

The upper quartile average for retailers, included in this section for comparative purposes, is $27,520 -- slightly higher than the $27,375 average for all respondents.

-Annual Fee Only

For retailers using this method of compensation, the average annual fee is $15,000, up 25 percent from last year's $12,000.

7. Committee Compensation (Table 7)

Eighty-three percent of the retail respondents pay their outside directors additionally for committee service, compared with 87 percent for all respondents. Of the retailing companies surveyed, 76 percent pay a per-meeting

fee only to committee members. However, only 57 percent pay the committee chairmen in this manner. Alternately, 21 percent of the chairmen receive an annual fee only, while none ot the retailers compensate committee members with this arrangement. An annual plus per-meeting fee was paid to more than 20 percent of the committee members and their chairmen.

Among retailers that paid a per-meeting fee only, the average fee for committee members averages $813, higher than any other respondent group.

8. **Additional Compensation Information (Table 8)**

Twelve retailers or 43 percent of the respondents raised outside director fees in 1985, up from 36 percent last year. For those who posted increases, the average amount was reported at $4,492, significantly higher than the $2,777 increase reported by all respondents and the average increase of $2,520 reported by retailers last year. Twenty-nine percent of the retailers project an increase in board fees during the next 12 months, up from 15 percent who predicted an increase last year.

The highest paid outside retail director earns an average $27,176 per year for all board services exclusive of any consulting arrangements. This represents a 49 percent increase over the 1981 average of $18,230. The upper

quartile average in this category is $37,650 for retail directors -- less than the average $41,539 for all directors (Table 8A). Only one of the retail respondents has an outside director who also receives consulting fees.

Benefits continue to increase in importance as a part of outside director compensation plans in retail companies. Forty-three percent allow their outside directors to defer board fees until retirement. Twenty-nine percent provide retirement income plans (up from 25 percent last year). Other benefits include matching educational gifts programs (cited by 32 percent), accident insurance (36 percent) and pension plans, now offered by 18 percent of the respondents, up from 15 percent in 1984. Travel expense reimbursement and directors' liability insurance are commonly included and reported by 93 percent and 90 percent, respectively (Table 8B).

Ninety-six percent believe that their outside directors are adequately compensated, up from 64% last year.

-Stock Ownership

Eighty-six percent of the respondents stated that stock options should not be part of directors' compensation, up from 72 percent reported last year, and more than any other industry segment. Nevertheless, 86 percent of the participating retail firms believe that all directors

should own some shares of company stock. And, 94 percent of the directors of outside retailing boards do, in fact, own company stock. Sixty-one percent of retail boards report as many as three outside directors who own 10,000 shares of stock, or more.

Only two retailing companies reported that none of their outside directors owned company stock.

-Liability Insurance

Sixty-four percent of the retail companies responded that directors' liability insurance premiums were increased on an average of 337 percent for those with policies up for renewal in 1985. The percent of increase for retailers was slightly less than the average of 362 percent for all respondents.

Only 11 percent of retail boards experienced a decrease in total dollar coverage compared with 27 percent of all companies and a high of 39 percent for insurance companies. However, when decreases occurred, the total decline in dollar coverage was greatest for retailers who averaged a 55 percent decline (from $83 million to $37 million), compared with a 42 percent decrease ($59 million to $34 million) for all companies.

Eighteen percent are considering self-insurance, about the same as reported by all respondents.

9. **Board Practices and Policies (Table 9)**

The retail respondents average seven regular board meetings per year -- one less than the average for all respondents, but the same number as reported for retailers last year. Although 32 percent hold at least one meeting at a branch subsidiary and 18 percent hold at least one meeting at a production site, 93 percent of all board meetings are held at corporate headquarters.

A retail company director devotes an average of 105 hours per year on board-related business, including time for review, preparation, attendance and travel (Table 9A). This is a slight decrease from the 109 hours reported in 1984, and the 130 hours reported in 1983, but up from 93 hours reported three years ago.

Board chairmen of retailing companies reported devoting an average of 107 hours, only two hours more than their directors' average of 105 and less than any responding group.

If compensated on an annual plus per-meeting basis, retailing directors earn an average $211 per hour. As in 1984, they received the highest hourly rate of all respondents.

The upper quartile average number of hours for retail directors was 198 compared with 196 hours reported by all respondents (Table 9A).

Along with banks and other financial institutions, retailers experienced the most director resignations, 43 percent compared with 32 percent for all respondents. Retirement was the major reason for resigning, cited by 58 percent. Forty-seven percent added new outside directors to their boards, compared with 40 percent in 1984 and 42 percent five years ago.

In selecting and identifying new directors, retailers continue to rely heavily on the recommendations of the chairmen and other board members (by 76 percent and 79 percent, respectively), but the use of the nominating committee grew significantly. This year, 69 percent cited its use in the selection process, up from 59 percent last year and 49 percent in 1981 (Table 9B).

Broad management experience continues to be the primary consideration in asking prospective directors to sit on the board (86 percent), followed by personal stature (62 percent) (Table 9C). Seventeen percent had a prospective director decline an invitation to serve on their board,

continuing to decrease from last year's 24 percent, and from 33 percent reported two years ago, and less than the 20 percent reported for all respondents.

10. **Board Issues (Table 10)**

When asked to rank the relative importance of various issues facing corporate boards today, retail companies, unlike all other responding groups, rated strategic planning above the other issues. Sixty-nine percent ranked it first, second or third, up from 52 percent last year. Financial results, the second most important issue, was placed as one, two or three by 66 percent, compared with 84 percent in 1983. Other significant issues include day-to-day operations, managerial succession, and financing/capitalization.

However, when asked to project rankings for the same issues five years from now, strategic planning and financial results were cited as equal in importance as long term issues (54 percent). Financing/capitalization and industry competition followed with 25 percent and 21 percent, respectively.

TABLE 1 - PARTICIPATING COMPANIES

Thirty of America's major retailers participated in our Thirteenth Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	9	30.0%
$2 billion and over	21	70.0%
TOTAL	30	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	28	93.4%
American Stock Exchange	1	3.3%
Over-The-Counter	1	3.3%
TOTAL	30	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number of Inside Directors	Average Number of Outside Directors	Average Number of Directors
Under $2 billion	4	8	12
$2 billion and over	5	9	14
Average	4	9	13

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	86.2%	27.6%
No	13.8%	72.4%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1981 Retailers	1985 Retailers	1985 All Companies Surveyed
Senior Executives (other companies)	75.8%	79.3%	81.8%
Retired Executive (other companies)	54.5%	69.0%	68.2%
Academician	45.5%	51.7%	54.5%
Retired or Previously Employed Corporate Officer	51.5%	41.4%	46.4%
Woman	51.5%	62.1%	45.0%
Attorney (does not provide legal services to company)	21.2%	31.0%	31.5%
Commercial Banker	27.3%	20.7%	30.8%
Former Government Official	12.1%	27.6%	29.6%
Major Shareholder (not officer of the company)	48.5%	37.9%	29.4%
"Protessional" Director	21.2%	37.9%	21.2%
Ethnic Minority Representative	12.1%	31.0%	25.4%
Attorney (provides legal services to the company)	36.4%	24.1%	24.9%
Investment Banker	33.3%	17.2%	24.2%
Non-U.S. Citizen	--	10.3%	14.0%
International Executive (American)	3.0%	6.9%	8.7%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	22.2%	22.2%
Senior Executives (other companies)	16.7%	33.3%
Attorneys (do not provide legal services)	11.1%	33.3%
Former Government Officials	11.1%	----
Major Stockholder	11.1%	----
Retired Executives (other companies)	5.6%	11.1%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the Board have?

Committee	1981 Retailers	1985 Retailers	1985 All Companies Surveyed
Audit	100.0%	100.0%	97.2%
Executive	81.8%	79.3%	78.2%
Compensation	78.8%	86.2%	82.2%
Nominating	51.5%	65.5%	59.2%
Finance	39.4%	41.4%	38.2%
Benefits	36.4%	51.7%	36.5%
Public Affairs	18.2%	17.2%	10.6%
Corporate Ethics	12.1%	3.4%	5.9%

5B. What is the composition of each committee?

Committee	Average # Inside Directors	Average # Outside Directors	Average # Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	3	5
Nominating	1	3	4
Finance	1	3	4
Benefits	1	3	4
Public Affairs	1	4	5
Corporate Ethics	0	0	0

5C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number of Meetings	1984 Average Number of Meetings	1985 Average Number of Meetings
Audit	4	3	3
Compensation	3	3	3
Executive	3	2	2
Nominating	2	2	2
Finance	3	4	3
Benefits	2	4	3
Public Affairs	3	2	3
Corporate Ethics	0	0	0

TABLE 6 - COMPENSATION

Annual Plus Per-Meeting Fee (84.6 percent of the respondents)

Annual Fee Amount	%
Under - $ 7,000	0.0%
$ 7,000 - $10,999	8.3%
$11,000 - $13,999	8.3%
$14,000 - $16,999	29.2%
$17,000 - $19,999	25.0%
$20,000 - $25,000	29.2%
TOTAL	100.0%
Average Total Annual Fee	$16,542

PLUS

Amount Per Meeting	%
Under $500	4.2%
$500 - $599	25.0%
$600 - $700	45.8%
$800 and over	25.0%
TOTAL	100.0%
Average Per-Meeting Fee	$771

EQUALS

Total Annual Compensation	%
Under $14,000	4.5%
$14,000 - $16,999	9.1%
$17,000 - $19,999	9.1%
$20,000 - $24,999	40.9%
$25,000 and over	36.4%
TOTAL	100.0%
Average Total Annual Compensation	$22,141

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$22,141	$27,520
Banks and other Financial Institutions	$17,462	$26,938
Insurance companies	$17,490	$26,786
Service companies	$18,751	$27,456
Industrials		
Under $200 million	$14,426	$21,571
$200 million - $399 million	$14,013	$19,088
$400 million - $599 million	$15,492	$19,250
$600 million - $999 million	$19,557	$27,033
$1 billion - $2.999 billion	$21,949	$30,147
$3 billion - $4.999 billion	$24,534	$30,095
$5 billion and over	$26,126	$33,332
Average	$19,544	$27,375

TABLE 7 - COMMITTEE COMPENSATION

7. Are outside directors paid an extra fee for serving on a committee?

	%
Yes	82.8%
No	10.3%
No response	6.9%
TOTAL	100.0%

If yes, how are they compensated?

Compensation	% 1984	% 1985
Per-Meeting Fee Only	47.8%	76.0%
Annual plus Per-Meeting Fee	43.5%	24.0%
Annual Fee Only	8.7%	---
TOTAL	100.0%	100.0%

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1985 for all board service activities exclusive of any consulting arrangements?

Amount	%
Under $11,000	--
$11,000 - $16,999	4.0%
$17,000 - $24,999	40.4%
$25,000 - $29,999	20.0%
$30,000 - $39,000	32.0%
$40,000 and over	4.0%
TOTAL	100.0%
Average	$27,176

Highest Paid Director

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$27,176	$37,650
Banks and other Financial Institutions	$27,878	$38,709
Insurance companies	$25,092	$43,500
Service companies	$26,135	$43,675
Industrials		
Under $200 million	$17,162	$28,438
$200 million - $399 million	$18,604	$29,452
$400 million - $599 million	$18,745	$28,643
$600 million - $999 million	$25,872	$39,133
$1 billion - $2.999 billion	$27,680	$37,589
$3 billion - $4.999 billion	$32,174	$40,929
$5 billion and over	$42,468	$68,747
Average	$27,424	$41,539

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	93.1%	95.8%
Directors' Liability Insurance	89.7%	93.4%
Deferral ot Board Fees Until Retirement	42.9%	67.5%
Matching Educational Gifts Program	32.1%	50.3%
Accident Insurance	35.5%	48.6%
Travel Expenses for Spouse	14.3%	27.2%
Retirement Income Plan	28.6%	25.8%
Life Insurance	10.7%	23.4%
Pension Plan	17.9%	19.2%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	10.3%
40 to 70	20.7%
71 to 100	20.7%
101 to 130	10.4%
131 to 160	13.8%
161 and over	13.8%
No Response	10.3%
TOTAL	100.0%
Average	105 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	105	198
Banks and other Financial Institutions	99	160
Insurance companies	129	185
Service companies	103	176
Industrials		
Under $200 million	98	166
$200 million - $399 million	104	198
$400 million - $599 million	108	182
$600 million - $999 million	99	159
$1 billion - $2.999 billion	116	202
$3 billion - $4.999 billion	132	219
$5 billion and over	145	236
Average	114	196

9B. How are outside directors located for the board?

	%
Recommended by chairman	75.9%
Recommended by board members	79.3%
Nominating committee	69.0%
Recommended by other corporate officers	46.4%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Broad Management Experience	86.2%
Personal Stature	62.1%
Strong Financial Experience	24.1%
Specific Industry Experience	17.2%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	Percent Ranking No. 1	Percent Ranking No. 1 or 2	Percent Ranking No. 1, 2, or 3
Strategic planning	7.7%	51.7%	69.0%
Financial results	57.1%	64.3%	65.5%
Day-to-Day operations	11.5%	27.6%	34.5%
Managerial succession	7.7%	10.3%	24.1%
Financing/Capitalization	3.8%	6.9%	20.7%
Industrial competition	3.8%	10.3%	17.2%
Executive compensation	---	---	13.8%
Mergers/Acquisitions	---	---	10.3%
Shareholder relations	---	4.0%	8.0%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 37 offices in 16 countries and 36 cities.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

Board Services
Energy
Entertainment
Fashion/Retail
Financial Services
Government/Not-for-Profit/Education
Health Care
High Technology
Hospitality/Leisure
Real Estate

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